

CITY OF BALTIMORE

LOAN AND GUARANTEE PROGRAM

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED

JUNE 30, 2000

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
FINANCIAL STATEMENTS
JUNE 30, 2000

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CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor

DEPARTMENT OF AUDITS

Room 321, City Hall
Baltimore, Maryland 21202



111 South Calvert Street
Baltimore, MD 21202

Independent Auditors' Report

December 22, 2000

The Mayor, City Council, Comptroller and
Board of Estimates of the City of Baltimore, Maryland

We have audited the accompanying balance sheet of the Loan and Guarantee Program, an enterprise fund of the City of Baltimore, Maryland as of June 30, 2000, and the related statements of revenues, expenses and changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the City of Baltimore, Maryland's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Loan and Guarantee Program of the City of Baltimore, Maryland, and are not intended to present fairly the financial position of the City of Baltimore, Maryland, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Loan and Guarantee Program of the City of Baltimore, Maryland, as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Yovonda D. Brooks
City Auditor
Department of Audits

KPMG LLP
Certified Public Accountants

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
BALANCE SHEET
June 30, 2000
(Expressed in Thousands)

ASSETS

Cash and cash equivalents.....	\$16,972
Investments.....	397
Accounts receivable	167
Notes receivable (net of allowance of \$57,175).....	3,755
Other assets.....	<u>226</u>
 Total assets.....	 <u><u>\$21,517</u></u>

LIABILITIES AND EQUITY

Liabilities:

Accrued interest payable.....	\$ 81
Notes payable.....	228
Other liabilities - primarily reserves for losses on guarantees.....	<u>5,820</u>
 Total liabilities and equity.....	 <u><u>6,129</u></u>

Equity:

Contributed capital.....	50,056
Accumulated deficit.....	<u>(34,668)</u>
 Total equity.....	 <u><u>15,388</u></u>
 Total liabilities and equity.....	 <u><u>\$21,517</u></u>

See notes to financial statements.

CITY OF BALTIMORE
 LOAN AND GUARANTEE PROGRAM
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN EQUITY
 FOR THE YEAR ENDED JUNE 30, 2000
 (Expressed in Thousands)

Operating revenues:

Rents, fees and other income.....	\$196
Interest and investment income.....	<u>927</u>
Total operating revenues.....	<u>1,123</u>

Operating expenses:

Salaries, wages and other personnel costs.....	142
Other program expenses - primarily contractual services.....	<u>3,014</u>
Total operating expenses.....	<u>3,156</u>
Operating loss.....	(2,033)
Accumulated deficit - beginning of year.....	<u>(32,635)</u>
Accumulated deficit - end of year.....	<u>(34,668)</u>
Contributed capital - beginning of year.....	51,939
Transfers to City of Baltimore.....	<u>(1,883)</u>
Contributed capital - end of year.....	<u>50,056</u>
Total equity - end of year.....	<u><u>\$15,388</u></u>

See notes to financial statements.

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2000
(Expressed in Thousands)

Cash flows from operating activities:	
Operating loss.....	(\$2,033)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Decrease in accounts receivable.....	767
Decrease in other assets.....	26
Decrease in other liabilities.....	(1)
Decrease in deferred revenue.....	<u>(730)</u>
Net cash used by operating activities.....	<u>(1,971)</u>
Cash flows from non-capital and related financing activities:	
Decrease in notes receivable.....	1,861
Transfer of capital contributions.....	(1,883)
Decrease in notes payable.....	<u>(46)</u>
Net cash used by non-capital and related financing activities.....	<u>(68)</u>
Cash used by investing activities -	
Proceeds from sale of investment securities.....	<u>(14)</u>
Net decrease in cash and cash equivalents.....	(2,053)
Cash and cash equivalents, beginning of year.....	<u>19,025</u>
Cash and cash equivalents, end of year.....	<u><u>\$16,972</u></u>

See notes to financial statements.

CITY OF BALTIMORE
LOAN AND GUARANTEE PROGRAM
NOTES TO FINANCIAL STATEMENTS

1. Description of the Program:

The Loan and Guarantee Program of the City of Baltimore (the Program) was created by resolution of the Board of Estimates of the City of Baltimore pursuant to four separate trust agreements. As of July 1, 1986, the Board of Estimates dissolved the then existing trust agreements and placed responsibility for the continuing management of the Program with the Director of Finance of the City of Baltimore (City).

In general terms, this Program provides for utilization of proceeds from certain bond issues, grants, donations and contributions appropriated by the City and also certain funds included in the capital portion of the annual Ordinance of Estimates. Such funds are used for direct loans or for guarantees for loans made by third parties for residential, commercial and industrial rehabilitation and development or for the construction of certain capital projects.

The major objectives of the Program are the expansion of the tax base and achievement of certain employment objectives of the City. The Program supports projects which are consistent with the master plan for City development and provides funds only when necessary financing is not forthcoming from private lenders.

These financial statements relate only to the operations of the Program and are not intended to present the financial position of the City and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust fund in conformity with accounting principles generally accepted in the United States of America (GAAP). Since the Program is designed to self-liquidate, the City does not plan to fund the accumulated deficit.

2. Summary of Significant Accounting Policies:

The accounting and financial reporting policies of the Program conform to GAAP and reporting standards as promulgated by the Governmental Accounting Standards Board (GASB) for proprietary funds.

GAAP allows governments to choose either not to implement, in proprietary fund types, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, unless those pronouncements are specifically adopted by GASB (provided that this is applied on a consistent basis) or to continue to follow FASB standards for these fund types. The Program has elected not to implement FASB pronouncements issued after that date for its proprietary fund types.

Basis of Accounting:

The financial statements have been prepared on the accrual basis of accounting whereby revenues are recorded at the time they are earned and expenses are recorded when incurred.

Cash and Cash Equivalents:

Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the City.

Investments:

Investments, which consist of certificates of deposit, are stated at cost.

Notes and Loan Guarantees:

The Program provides for losses on notes and accrued interest receivable when, in management's judgment, it is probable that the outstanding principal or accrued interest will not be repaid in accordance with the terms of the loan and the borrower or the collateral will be unable to otherwise fully satisfy the obligation. For loans funded with federal grants, estimated losses on loans receivable are recorded as bad debts and then transferred as a reduction of contributed capital. Many loans contain provisions for the accrual of current interest and payment thereof in future periods when collateralized property produces sufficient cash flow. The Program accrues interest income in accordance with the terms of the loan contracts. Interest accruals are suspended when payments of interest or principal are not being made in accordance with contract requirements or when, in management's judgment, a loss is expected on the loan. A provision for loss on loan guarantees is recognized when, in management's judgment, a loss is expected.

3. Cash Deposits and Investments:

The Program participates in the City's pooled cash account. At June 30, 2000, the Program's share of the City's pooled cash account was \$16,972,000. All of the City's pooled cash deposits are either covered by Federal depository insurance, collateralized by securities held in the name of the City by the City's agent, or collateralized by securities held by the pledging financial institution's trust departments in the City's name.

The City is authorized by State law to invest in direct or indirect obligations of the U.S. government, certificates of deposit and repurchase agreements. City policy requires that securities underlying repurchase agreements must have a market value of at least 100% of the cost of the repurchase agreement and the City takes possession of the securities when the repurchase agreement's maturity is over five days. Management believes the City has complied with this policy throughout the year.

At June 30, 2000, the Program had bank balances in the form of non-negotiable certificates of deposit, with a carrying value of \$397,000 which are reported as

investments. All of the Program's certificates of deposit are either covered by Federal depository insurance or collateralized by securities held in the name of the City by the pledging financial institution.

4. Notes Receivable:

Notes receivable outstanding at June 30, 2000 were collateralized by mortgages and deeds of trust. These notes bear interest at rates ranging from 1% to prime plus 6% and mature over the next 40 years. At June 30, 2000, the prime rate of interest was 9.5%. Many low interest rate loans are made with Federal funds specifically earmarked for these purposes.

5. Contingencies:

As of June 30, 2000, the Program is contingently liable for insured and guaranteed loans totaling \$1,295,000.

6. Contributed Capital:

Contributions to capital represent federal grant monies received for the purpose of economic development loans.

Decreases in contributed capital resulted from the transfer of the write-off of the uncollectible federally funded loans and the transfer of principal payments received on federally funded loans to one of the City's special revenue funds.